

**CITY OF LYNN, MASSACHUSETTS**

**Financial Statements and  
Required Supplementary Information**

**June 30, 2003**

# **CITY OF LYNN, MASSACHUSETTS**

## **Financial Statements and Required Supplementary Information**

**Year Ended June 30, 2003**

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*Independent Auditors' Report  
on the Financial Statements*

To the Honorable Mayor and City Council  
City of Lynn, Massachusetts

We have audited the accompanying basic financial statements of the City of Lynn, Massachusetts ("the City") as of June 30, 2003 (December 31, 2002 for the Contributory Retirement System) and for the year then ended, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Lynn, Massachusetts, as of June 30, 2003 (December 31, 2002 for the Contributory Retirement System), and the results of its operations and the cash flows of its business type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 6, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 2 - 8 and 42, respectively, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



January 6, 2004

# **CITY OF LYNN, MASSACHUSETTS**

## **Management's Discussion and Analysis**

**June 30, 2003**

The Management's Discussion and Analysis (MD&A) of the City of Lynn's financial statements provides an overview of the City's financial activities for the fiscal year ended June 30, 2003. The information presented here should be considered in conjunction with the City's financial statements.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 10) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### **FINANCIAL HIGHLIGHTS**

The total assets of the City exceeded its total liabilities at June 30, 2003 by \$87,176,313 (net assets). Unrestricted net assets of \$23,878,519 were available to meet the City's future obligations. This represented \$23,440,615 for governmental activities, which included the General Fund, and \$437,904 for business-type activities, which included the City's Enterprise Funds (Marina, Ambulance, Golf Course and School Lunch Program).

The City's governmental funds total revenues of \$247,072,190 increased by 3% or \$6.1 million and the City's total expenses increased by 4% or \$9.5 million from FY 2002. The city's general revenues of \$215,747,893 were \$6.7 million higher than general expenses of \$209,016,844 before transfers.

At year-end, the General Fund's undesignated fund balance/(deficit) (\$4,961,084). This significant decline resulted from economic factors as well as executive and legislative decisions. The City experienced significant cuts in state aid. These cuts were addressed and absorbed through substantial reductions in personnel and supplemented through the use of reserves. Other contributing factors included the closing of two nursing homes; sharp increases in health insurance costs (24%), in addition to sharp increases in unemployment claims. Also contributing to this decline is one portion of school construction debt. The City incurred debt service of \$2.3 million while not receiving reimbursement under the Commonwealth's School Building Assistance Program. This is a direct result of the State's fiscal problems and resolution is expected in future periods.

Occurrences such as nursing home closures and extraordinary unemployment claims are not expected to impact future periods. Also, the City took aggressive measures to mitigate rising health care costs. Commencing with Fiscal 2004, the City's retirees through MGL Chapter 32B Section 18 were enrolled in a Medicare based program. The program is designed to shift the majority of retiree claims to Medicare. Also, the City embarked on an ambitious campaign to auction off Tax Title Foreclosures.

# **CITY OF LYNN, MASSACHUSETTS**

## **Management's Discussion and Analysis**

**June 30, 2003**

### **Reporting the City as a Whole**

#### **The Statement of Net Assets and the Statement of Activities**

Our analysis of the City as a whole begins on page 9. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities** - Most of the City's basic services are reported here, including the schools, police, fire, libraries, parks, public works, community development, and general administration. Property taxes, excise taxes, licenses and permit fees, fines, and state and federal grants finance most of these activities.
- **Business-type activities** - The City charges fees to customers, either directly or through state or federal reimbursements, to help cover all or most of the cost of certain services it provides. The City's Marina, golf course, nursing homes, ambulance service, and school lunch programs are here.

### **Reporting the City's Most Significant Funds**

#### **Fund Financial Statements**

Our analysis of the City's major funds begins on page 11. The fund financial statements begin on page 11 and provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the Commonwealth of Massachusetts.) The City's two kinds of funds---governmental and proprietary---use different accounting approaches.

- **Governmental funds**---Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called "Modified Accrual Accounting", which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between government-wide activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in the reconciliations on pages 13 and 14.

# CITY OF LYNN, MASSACHUSETTS

## Management's Discussion and Analysis

June 30, 2003

### Reporting the City's Most Significant Funds (Continued)

#### Fund Financial Statements (Continued)

- Proprietary funds - When the City charges customers for the services it provides, they are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as a statement of cash flows.

#### The City as Trustee

#### Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for the City Of Lynn Retirement System. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 18. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

#### THE CITY AS A WHOLE

For the year ended June 30, 2003, net assets changed as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Beginning net assets	\$ 90,087,283	\$ 271,833	\$ 90,359,116
Increase/(decrease) in net assets	<u>(3,978,501)</u>	<u>795,696</u>	<u>(3,182,805)</u>
Ending net assets	<u>\$ 86,108,782</u>	<u>\$ 1,067,529</u>	<u>\$ 87,176,311</u>

It should be noted that the decrease in net assets for Governmental Activities and the decrease in net assets for Business-type Activities include depreciation expense of \$3.4 million dollars and the City fully complying with "infrastructure" accounting aspect of GASB No. 34.

# **CITY OF LYNN, MASSACHUSETTS**

## **Management's Discussion and Analysis**

**June 30, 2003**

### **Governmental Activities**

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General government	Building permits, various licenses, and various inspections.
Public safety	Fines and 911 charges for services; federal and state grants for police, fire and civil emergency management are categorized as operating grants.
Education	Charges for use of schools are categorized as charges for services, federal and state grants are categorized as operating grants.
Public service	Federal and state grants are categorized at operating grants.
Community development	Operating grants include emergency shelter; Capital grants from CDBG.

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

### **Business-Type Activities**

It is important to note that the City decided to close the facilities associated with the Lynn Public Medical and City Infirmary operations during the year ending June 30, 2003. The costs associated with closing down these facilities have been reported in the General Fund.

# CITY OF LYNN, MASSACHUSETTS

## Management's Discussion and Analysis

June 30, 2003

### THE CITY'S FUNDS

The following schedule presents a summary of general, special revenue, capital project, and permanent fund revenues and expenditures for the fiscal year ended June 30, 2002 and June 30, 2003, and the amount and percentage in relation to the current year totals:

Revenues	FYE 2002		FYE 2003	
Property Taxes	\$ 66,768,015	27.71%	\$ 69,497,718	28.13%
Intergovernmental	159,940,343	66.39%	161,378,306	65.31%
Excise Taxes	5,967,976	2.48%	6,042,726	2.45%
Charges for services	2,364,690	0.98%	4,785,649	1.94%
Licenses, permits and fines	1,920,827	0.80%	2,047,375	0.83%
Departmental	2,902,567	1.20%	2,103,214	7.85%
Investment income	1,055,775	0.44%	1,217,202	0.49%
Total Revenues:	\$ 240,920,193	100.00%	\$ 247,072,190	100.00%

Expenditures	FYE 2002		FYE 2003	
General Government	\$ 8,938,451	4.18%	\$ 12,461,976	5.19%
Public Safety	34,536,091	14.99%	33,349,292	13.90%
Education	125,073,072	53.99%	125,626,937	52.34%
Public Service	12,045,938	5.25%	13,196,869	5.50%
Health & Welfare	1,805,128	0.78%	6,112,983	2.55%
Culture & Recreation	1,767,568	0.77%	1,311,937	0.55%
Debt Service	10,372,613	4.51%	11,159,855	4.65%
Employee Pensions	622,612	0.27%	418,133	0.17%
Insurance	21,501,940	8.80%	24,724,837	10.30%
Intergovernmental	4,260,902	1.85%	3,448,806	1.44%
Capital Outlay	4,863,545	2.11%	348,797	0.15%
Community Dev Activities	6,078,211	2.50%	7,838,834	3.27%

Total Expenditures: \$ 231,866,071 100.00% \$ 239,999,256 100.00%

### GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the General Fund by \$2,456,222 this budget amendment was a decrease to various department appropriations as a result of 9c cuts imposed by the Commonwealth of Massachusetts upon the municipalities.



# CITY OF LYNN, MASSACHUSETTS

## Management's Discussion and Analysis

June 30, 2003

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of June 30, 2003, the City had \$174,139,105 million invested in capital assets including police and fire equipment, buildings, park facilities, roads, and infrastructure. (See table below.)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 6,427,595	\$ 488,834	\$ 6,916,429
Land Improvements	1,524,086	37,908	1,561,994
Buildings and improvements	138,922,518	1,392,351	140,314,869
Infrastructure	7,700,386	-	7,700,386
Machinery, equipment and fixtures	6,446,177	1,838,635	8,284,812
Licensed Vehicles	<u>9,360,615</u>	<u>-</u>	<u>9,360,615</u>
	<u>\$ 170,381,377</u>	<u>\$ 3,757,728</u>	<u>\$ 174,139,105</u>

The City of Lynn had current year additions of \$1,180,494, which included two fire engines as well as significant asphalt paving. There is a net reduction of the cost basis of fixed assets as a result of reclassification of fully depreciated assets and the City fully complying with GASB No. 34 on infrastructure.

#### Debt

At year-end, the City had \$101,474,390 in outstanding notes and a bond anticipation note of \$2,500,000 in anticipation of a new police station. That is a decrease of 5.1% percent as shown in the following table.

	Governmental Activities		Business-Type Activities		Totals	
	2003	2002	2003	2002	2003	2002
General Obligation bonds	\$ 19,149,110	\$ 21,344,110	\$ 1,355,860	\$ 1,376,440	\$ 20,504,970	\$ 22,720,550
Capital Projects (high schools)	<u>83,490,000</u>	<u>86,880,000</u>	<u>-</u>	<u>-</u>	<u>83,490,000</u>	<u>86,880,000</u>
Totals	<u>\$ 102,639,110</u>	<u>\$ 108,224,110</u>	<u>\$ 1,355,860</u>	<u>\$ 1,376,440</u>	<u>\$ 103,994,970</u>	<u>\$ 109,600,550</u>

# CITY OF LYNN, MASSACHUSETTS

## Management's Discussion and Analysis

June 30, 2003

### CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

**Government debt:** The majority of City debt relates to school construction, specifically Chapter 70 of the MGL or Chapter 645 of the Acts of 1948. The debt incurred is reimbursed at a rate of 90% as a result of the City's acceptance into the Commonwealth's School Building Assistance Program. This is considered outside debt and has no bearing on the City's debt limitations. No new debt was issued this year. The new police station has temporary borrowings, at the date of the report, equaling \$12,500,000. The project is expected to cost \$20 million and the City is well within its debt limitations to finance this venture. Total debt is expected to decrease by \$6,415,000 in FY 2004.

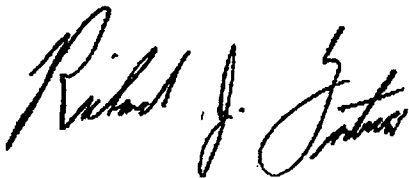
**Business Activity debt:** The City owns and operates a Marina through its Economic Development Department. The Marina is financed by a Revenue Bond attained through the National Oceanic and Atmospheric Administration (NOAA). The proceeds from the Marina provide funding for both operations and the repayment of the Revenue Bond. The City is currently negotiating a restructuring of the debt with NOAA. Also included in this segment are various Section 108 loans secured through the City's Community Development Block Grant (CDBG) funds for the purpose of infrastructure improvements.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

With the decrease in State Aid experienced this year, next year's general fund budget was determined based on another decrease. While hopes are that this does not occur, we are making plans to be prepared. The ambulance rate structure was significantly changed in July 2002 and rates have been raised. All budgets are being reviewed with a possible 10% cut to absorb anticipated State aid reductions.

### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office at 1 City Hall Square, Lynn, and Massachusetts 01901.



Richard Fortucci  
Chief Financial Officer/Treasurer

# CITY OF LYNN, MASSACHUSETTS

## Statement of Net Assets

June 30, 2003

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current:			
Cash and cash equivalents:			
Unrestricted	\$ 16,215,558	\$ -	\$ 16,215,558
Restricted	9,679,221	347,931	10,027,152
Investments	6,004,072	-	6,004,072
Property tax receivables:			
Current year real property tax levy	1,645,958	-	1,645,958
Current year personal property tax levy	46,777	-	46,777
Current year auto excise tax levy	1,111,084	-	1,111,084
Other receivables and tax titles:			
Departmental	4,446,052	-	4,446,052
Due from other governments	5,310,385	768,437	6,078,822
Accounts receivable, net	-	754,062	754,062
Noncurrent:			
Due from other funds	13,861	-	13,861
Due from other governments	66,033,469	-	66,033,469
Property tax receivables:			
Prior years' personal property taxes levies, net of reserve of \$765,000	84,566	-	84,566
Prior years' auto excise tax levies, net of reserve \$1,300,000	1,373,512	-	1,373,512
Tax liens - net of reserve of \$1,225,000	747,768	-	747,768
Tax possessions - net of reserve of \$1,045,000	261,584	-	261,584
Other assets	3,745,072	-	3,745,072
Investment in capital assets, net of accumulated depreciation	94,808,760	2,198,684	97,007,444
<b>Total assets</b>	<u>211,527,699</u>	<u>4,069,114</u>	<u>215,596,813</u>
<b>Liabilities</b>			
Current:			
Warrants payable	5,969,878	1,195,956	7,165,834
Accrued payroll and withholdings	3,196,868	-	3,196,868
Accrued claims payable	8,994,173	-	8,994,173
Bonds and notes payable - current	8,815,000	-	8,815,000
Accrued legal settlements - current	150,000	-	150,000
Deferred revenues	-	449,769	449,769
Noncurrent:			
Accrued sick leave	2,764,147	-	2,764,147
Due to other funds	13,861	-	13,861
Bonds and notes payable - noncurrent	93,824,110	1,355,860	95,179,970
Accrued legal settlements - long term	1,270,000	-	1,270,000
Other liabilities	420,878	-	420,878
<b>Total liabilities</b>	<u>125,418,915</u>	<u>3,001,585</u>	<u>128,420,500</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	62,668,169	842,824	63,510,993
Restricted	-	(213,199)	(213,199)
Unrestricted	23,440,615	437,904	23,878,519
<b>Total net assets</b>	<u>\$ 86,108,784</u>	<u>\$ 1,067,529</u>	<u>\$ 87,176,313</u>

The accompanying notes are an integral part of the financial statements.

# CITY OF LYNN, MASSACHUSETTS

## Statement of Activities

Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues		Net Expenses/(Revenues) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government	\$ 10,113,497	\$ 1,698,557	\$ 204,623	\$ 8,210,317	\$ -	\$ 8,210,317
Public safety	36,170,099	-	2,894,940	33,275,159	-	33,275,159
Education	127,263,510	249,822	124,477,885	2,535,803	-	2,535,803
Public service	13,644,717	-	1,317,151	12,327,566	-	12,327,566
Health and welfare	6,226,484	2,837,270	-	3,389,214	-	3,389,214
Culture and recreation	1,374,888	-	-	1,374,888	-	1,374,888
Debt service	6,030,835	-	-	6,030,835	-	6,030,835
Employee pensions	418,133	-	-	418,133	-	418,133
Insurance	24,724,837	-	-	24,724,837	-	24,724,837
Intergovernmental	3,448,806	-	-	3,448,806	-	3,448,806
Capital outlays	1,395,302	-	-	1,395,302	-	1,395,302
Community Development activities	7,838,834	-	7,777,677	61,157	-	61,157
Total governmental activities	238,649,942	4,785,649	136,672,276	97,192,017	-	97,192,017
Business-type activities:						
Marina enterprise fund	703,307	821,929	-	-	(118,622)	(118,622)
School lunch fund	5,012,828	805,098	4,397,435	-	(189,705)	(189,705)
Gannon golf course	795,800	885,153	-	-	(89,353)	(89,353)
Ambulance	1,562,728	1,781,661	-	-	(218,933)	(218,933)
Total business-type activities	8,074,663	4,293,841	4,397,435	-	(616,613)	(616,613)
Total government	\$ 246,724,605	\$ 9,079,490	\$ 141,069,711	97,192,017	(616,613)	96,575,404
General revenues:						
Property taxes				68,184,455	-	68,184,455
Intergovernmental				29,211,653	-	29,211,653
Excise taxes				6,124,679	-	6,124,679
Charges for services				-	-	-
Licenses, permits and fines				-	-	-
Departmental				1,331,877	-	1,331,877
Investment income				1,217,202	-	1,217,202
Special items:						
Transfer, net				(12,856,350)	179,083	(12,677,267)
Total general revenues, special items and transfers				93,213,516	179,083	93,392,599
Change in net assets				(3,978,501)	795,696	(3,182,805)
Net assets:						
Beginning of the year				90,087,285	271,833	90,359,118
End of the year				\$ 86,108,784	\$ 1,067,529	\$ 87,176,313

The accompanying notes are an integral part of the financial statements.

# CITY OF LYNN, MASSACHUSETTS

## Governmental Funds

### Balance Sheet

June 30, 2003

	General	Lynn Community Development Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents:				
Unrestricted	\$ 14,582,988	\$ -	\$ 1,632,570	\$ 16,215,558
Restricted	24,956	1,604,191	8,050,074	9,679,221
Investments	-	-	6,004,072	6,004,072
Property tax receivables:				
Current year's levy	1,834,735	-	-	1,834,735
Prior years' levy	849,566	-	-	849,566
Other receivables and tax titles:				
Tax liens	1,972,768	-	-	1,972,768
Excise taxes	3,784,596	-	-	3,784,596
Departmental	435,548	4,010,504	-	4,446,052
Tax possessions	1,306,584	-	-	1,306,584
Due from other funds	13,861	-	-	13,861
Due from other governments	69,932,707	766,951	644,196	71,343,854
Other assets	3,849,072	-	-	3,849,072
<b>Total assets</b>	<b>\$ 98,587,381</b>	<b>\$ 6,381,646</b>	<b>\$ 16,330,912</b>	<b>\$ 121,299,939</b>
<b>Liabilities and fund balances</b>				
Liabilities:				
Warrants payable	\$ 3,669,792	\$ 179,260	\$ 619,971	\$ 4,469,023
Accrued payroll and withholdings	3,196,868	-	-	3,196,868
Accrued claims payable	8,994,173	-	-	8,994,173
Due to other funds	-	-	13,861	13,861
Bond anticipation note payable	-	-	2,500,000	2,500,000
Other liabilities	420,878	-	-	420,878
Deferred revenue	78,493,651	4,777,454	-	83,271,105
Accrued legal settlements	1,420,000	-	-	1,420,000
Reserve for abatements and exemptions	7,010,540	-	-	7,010,540
<b>Total liabilities</b>	<b>103,205,902</b>	<b>4,956,714</b>	<b>3,133,832</b>	<b>111,296,448</b>
Fund balances/(deficits):				
Reserved for encumbrances	1,359,912	449,575	-	1,809,487
Unreserved:				
Designated	(1,017,349)	975,357	12,795,276	12,753,284
Undesignated	(4,961,084)	-	-	(4,961,084)
Permanent	-	-	401,804	401,804
<b>Total fund balances/(deficits)</b>	<b>(4,618,521)</b>	<b>1,424,932</b>	<b>13,197,080</b>	<b>10,003,491</b>
<b>Total Liabilities and fund balances/(deficits)</b>	<b>\$ 98,587,381</b>	<b>\$ 6,381,646</b>	<b>\$ 16,330,912</b>	<b>\$ 121,299,939</b>

The accompanying notes are an integral part of the financial statements.

# CITY OF LYNN, MASSACHUSETTS

## Governmental Funds

### Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2003

	General	Lynn Community Development Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 69,497,718	\$ -	\$ -	\$ 69,497,718
Intergovernmental	133,099,823	7,093,130	21,185,353	161,378,306
Excise taxes	6,042,726	-	-	6,042,726
Charges for services	2,837,270	-	1,948,379	4,785,649
Licenses, permits and fines	2,047,375	-	-	2,047,375
Departmental	1,415,901	687,313	-	2,103,214
Investment income	807,080	7,644	402,478	1,217,202
	<u>215,747,893</u>	<u>7,788,087</u>	<u>23,536,210</u>	<u>247,072,190</u>
Total revenues				
Expenditures:				
General government	11,518,615	-	943,361	12,461,976
Public safety	32,617,585	-	731,707	33,349,292
Education	106,987,456	-	18,639,481	125,626,937
Public service	10,760,710	154,690	2,281,469	13,196,869
Health and welfare	6,042,470	-	70,513	6,112,983
Culture and recreation	1,272,902	-	39,035	1,311,937
Debt service	11,159,855	-	-	11,159,855
Employee pensions	418,133	-	-	418,133
Insurance	24,724,837	-	-	24,724,837
Intergovernmental	3,448,806	-	-	3,448,806
Capital outlay	65,475	28,956	254,366	348,797
Community Development activities	-	7,838,834	-	7,838,834
	<u>209,016,844</u>	<u>8,022,480</u>	<u>22,959,932</u>	<u>239,999,256</u>
Total expenditures				
Excess/(deficiency) of revenues over expenditures	<u>6,731,049</u>	<u>(234,393)</u>	<u>576,278</u>	<u>7,072,934</u>
Other financing sources/(uses):				
Proceeds from borrowing	-	-	-	-
Transfers to other funds	(12,361,140)	-	(495,210)	(12,856,350)
	<u>(12,361,140)</u>	<u>-</u>	<u>(495,210)</u>	<u>(12,856,350)</u>
Total other financing sources/(uses)				
Excess/(deficiency) of revenues and other financing sources over expenditures and other financing uses	(5,630,091)	(234,393)	81,068	(5,783,416)
Fund balance/(deficit), beginning	<u>1,011,570</u>	<u>1,659,325</u>	<u>13,116,012</u>	<u>15,786,907</u>
Fund balance/(deficit), ending	<u>\$ (4,618,521)</u>	<u>\$ 1,424,932</u>	<u>\$ 13,197,080</u>	<u>\$ 10,003,491</u>

The accompanying notes are an integral part of the financial statements.

# CITY OF LYNN, MASSACHUSETTS

## Reconciliation of the Governmental Funds Balance Sheet - Total Fund Balance to the Statement of Net Assets

June 30, 2003

Total governmental fund balance	\$ 10,003,491
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds	94,808,760
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:	
Due from Commonwealth of Massachusetts under Chapter 645 School Building Assistance Program	69,499,374
Other receivables, net of reserves	16,201,271
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due	(1,500,855)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds and notes payable	(100,139,110)
Compensated absences	<u>(2,764,147)</u>
Net assets of governmental activities	\$ <u><u>86,108,784</u></u>

# CITY OF LYNN, MASSACHUSETTS

## Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities

Year Ended June 30, 2003

Net change in fund balances - total governmental funds \$ (5,783,416)

Governmental funds report capital outlays as expenditures, however in the Statement of Activities, the costs of certain assets purchased are allocated over their estimated useful lives and reported as depreciation expense. These amounts are as follows:

Capital outlays reported as expenditures on Statement of Revenues, Expenditures, and Changes in Fund Balances	(1,046,505)
Depreciation expense included in Statement of Activities.	(3,406,616)

Reimbursements from the Commonwealth of Massachusetts School Building Building Assistance Program for principal payments on long-term debt provide current financial resources to governmental funds but have no effect on net assets, therefore are excluded from net assets.	3,988,987
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Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements.	(3,533,386)
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Compensated absences expense reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	673,415
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In the statement of activities, interest is accrued on long-term debt, whereas in the governmental funds interest is not reported until due.	455,980
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### Long-term debt:

The issuance of long-term debt provides current financial resources to governmental funds but have no effect on net assets, therefore are excluded from net assets.

-

The repayment of the principal of long-term debt consumes the financial resources of governmental funds but has no effect on net assets, therefore, are excluded from net assets.

4,673,040

Net change in net assets of governmental activities	<u><u>\$ (3,978,501)</u></u>
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# CITY OF LYNN, MASSACHUSETTS

## Proprietary Funds

### Statement of Net Assets

June 30, 2003

	Business-Type Activities Enterprise Funds				
	Marina Enterprise Fund	School Lunch Fund	Gannon Golf Course	Ambulance	Totals
<b>Assets</b>					
Current:					
Restricted cash and cash equivalents	\$ 347,931	\$ -	\$ -	\$ -	\$ 347,931
Accounts receivable, net	34,399	-	-	719,663	754,062
Due from other governments	-	768,437	-	-	768,437
<b>Total current assets</b>	<u>382,330</u>	<u>768,437</u>	<u>-</u>	<u>719,663</u>	<u>1,870,430</u>
Noncurrent:					
Other assets	-	-	-	-	-
Fixed assets, net	1,833,518	-	82,240	282,926	2,198,684
<b>Total noncurrent assets</b>	<u>1,833,518</u>	<u>-</u>	<u>82,240</u>	<u>282,926</u>	<u>2,198,684</u>
<b>Total assets</b>	<u>\$ 2,215,848</u>	<u>\$ 768,437</u>	<u>\$ 82,240</u>	<u>\$ 1,002,589</u>	<u>\$ 4,069,114</u>
<b>Liabilities</b>					
Current:					
Warrants payable	\$ -	\$ 1,195,956	\$ -	\$ -	\$ 1,195,956
Deferred revenues	168,010	-	281,759	-	449,769
Bonds and notes payable	-	-	-	-	-
<b>Total current liabilities</b>	168,010	1,195,956	281,759	-	1,645,725
Noncurrent:					
Bonds and notes payable	1,355,860	-	-	-	1,355,860
<b>Total liabilities</b>	<u>1,523,870</u>	<u>1,195,956</u>	<u>281,759</u>	<u>-</u>	<u>3,001,585</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt	477,658	-	82,240	282,926	842,824
Restricted	214,320	(427,519)	-	-	(213,199)
Unrestricted	-	-	(281,759)	719,663	437,904
<b>Total Net Assets</b>	<u>\$ 691,978</u>	<u>\$ (427,519)</u>	<u>\$ (199,519)</u>	<u>\$ 1,002,589</u>	<u>\$ 1,067,529</u>

# CITY OF LYNN, MASSACHUSETTS

## Proprietary Funds

### Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2003

	Business-Type Activities Enterprise Fund				
	Marina Enterprise Fund	School Lunch Fund	Gannon Golf Course	Ambulance	Totals
Operating revenues:					
Rental income	\$ 653,662	\$ -	\$ -	\$ -	\$ 653,662
Intergovernmental revenues	-	4,397,435	-	-	4,397,435
Charges for services	<u>168,267</u>	<u>805,098</u>	<u>885,153</u>	<u>1,781,661</u>	<u>3,640,179</u>
Total operating revenues	<u>821,929</u>	<u>5,202,533</u>	<u>885,153</u>	<u>1,781,661</u>	<u>8,691,276</u>
Operating expenses:					
Depreciation	55,026	-	3,652	62,872	121,550
Food service	-	3,254,941	-	-	3,254,941
Insurance	106,439	-	65,143	-	171,582
Office expense	51,591	-	11,845	-	63,436
Outside services	9,970	-	-	73,781	83,751
Rental and lease expense	29,880	-	61,121	167,000	258,001
Repairs and maintenance	-	-	73,796	-	73,796
Salaries and benefits	119,739	1,757,887	370,397	1,204,075	3,452,098
Supplies and cost of fuel sold	230,025	-	68,119	55,000	353,144
Management	3,267	-	97,500	-	100,767
Utilities	<u>26,907</u>	<u>-</u>	<u>44,227</u>	<u>-</u>	<u>71,134</u>
Total operating expenses	<u>632,844</u>	<u>5,012,828</u>	<u>795,800</u>	<u>1,562,728</u>	<u>8,004,200</u>
Net operating income/(loss)	189,085	189,705	89,353	218,933	687,076
Non-operating revenues/(expenses):					
Debt service and interest	<u>(70,463)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(70,463)</u>
Income/(loss) before transfers	118,622	189,705	89,353	218,933	616,613
Transfers in/out	<u>416,422</u>	<u>-</u>	<u>(90,921)</u>	<u>(146,418)</u>	<u>179,083</u>
Change in net assets	535,044	189,705	(1,568)	72,515	795,696
Net assets at beginning of year	<u>156,934</u>	<u>(617,224)</u>	<u>(197,951)</u>	<u>930,074</u>	<u>271,833</u>
Net assets at end of year	<u>\$ 691,978</u>	<u>\$ (427,519)</u>	<u>\$ (199,519)</u>	<u>\$ 1,002,589</u>	<u>\$ 1,067,529</u>

The accompanying notes are an integral part of the financial statements.

# CITY OF LYNN, MASSACHUSETTS

## Proprietary Funds

### Statement of Cash Flows

Year Ended June30, 2003

	Business-Type Activities Enterprise Funds				
	Marina Enterprise Fund	School Lunch Fund	Gannon Golf Course	Ambulance	Totals
<b>Cash flows from operating activities:</b>					
Receipts from customers and users	\$ 815,919	\$ 4,883,161	\$ 955,069	\$ 1,479,006	\$ 8,133,155
Payments to vendors and employees	(577,818)	(5,030,887)	(792,148)	(1,499,856)	(7,900,709)
Net cash provided by/(used in) operating activities	238,101	(147,726)	162,921	(20,850)	232,446
<b>Cash flows from noncapital financing activities:</b>					
Transfers in/(out)	416,422	-	(90,921)	(146,418)	179,083
<b>Cash flows from capital and related financing activities:</b>					
Principal payments on bonds and notes	(20,580)	-	-	-	(20,580)
Interest expense	(49,883)	-	-	-	(49,883)
Acquisition of capital assets	(460,339)	-	(72,000)	167,268	(365,071)
Net cash provided/(used in) capital related financing activities	(530,802)	-	(72,000)	167,268	(435,534)
Net change in cash and cash equivalents	123,721	(147,726)	-	-	(24,005)
Cash and cash equivalents, beginning	224,210	147,726	-	-	371,936
Cash and cash equivalents, ending	\$ 347,931	\$ -	\$ -	\$ -	\$ 347,931
<b>Reconciliation of operating income to net cash provided by/(used in) operating activities:</b>					
Operating income/(loss)	\$ 189,085	\$ 189,705	\$ 89,353	\$ 218,933	\$ 687,076
Adjustments to reconcile operating income/(loss) to net cash provided by/(used in) operations:					
Depreciation	55,026	-	3,652	62,872	121,550
Changes in:					
Accounts receivable	(34,399)	-	17,665	(302,655)	(319,389)
Due from other governments	-	(319,372)	-	-	(319,372)
Other assets	11,379	-	-	-	11,379
Warrants payable	-	(18,059)	-	-	(18,059)
Deferred revenues	17,010	-	52,251	-	69,261
Total adjustments	49,016	(337,431)	73,568	(239,783)	(454,630)
Net cash provided by/(used in) operating activities	\$ 238,101	\$ (147,726)	\$ 162,921	\$ (20,850)	\$ 232,446

The accompanying notes are an integral part of the financial statements.

**CITY OF LYNN, MASSACHUSETTS**

**Retirement System Fiduciary Fund**

**Statement of Fiduciary Net Assets**

**December 31, 2002**

**Assets**

Restricted cash and cash equivalents	\$ 2,598,011
Investments	129,716,102
Departmental receivables	<u>8,306,753</u>
<b>Total assets</b>	140,620,866

**Liabilities**

Investment purchases payable and other liabilities	<u>104,634</u>
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**Net Assets**

Held in trust for pension benefits and and other purposes	<u><u>\$ 140,516,232</u></u>
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# CITY OF LYNN, MASSACHUSETTS

## Retirement System Fiduciary Fund

### Statement of Changes in Fiduciary Net Assets

Year Ended December 31, 2002

#### Additions:

##### Contributions:

Members' retirement contributions	\$ 6,364,625
Intergovernmental contributions	11,602,608
Transfers from General Fund to fund employer contributions	<u>14,054,394</u>
Total contributions	<u>32,021,627</u>

##### Net investment earnings/(losses):

Interest and dividends	4,146,306
Realized losses on sale of investments	(5,036,360)
Unrealized losses in fair value of investments	<u>(11,894,762)</u>

Total net investment earnings/(losses)	<u>(12,784,816)</u>
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Total additions	<u>19,236,811</u>
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#### Deductions:

Employee pension benefits	29,237,283
Refunds of contributions	1,266,667
Administrative expenses	<u>956,070</u>

Total deductions	<u>31,460,020</u>
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Change in net assets	(12,223,209)
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Net assets at beginning of year	<u>152,739,441</u>
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Net assets at end of year	<u><u>\$ 140,516,232</u></u>
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# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 1 - Summary of Significant Accounting Policies

The City of Lynn, Massachusetts ("the City") complies with accounting principles generally accepted in the United States of America ("GAAP"). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City with the option of electing to apply FASB pronouncements issued after November 30, 1989. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. The reporting requirements of GASB Statement Nos. 33, 34, and 39 as applicable, have been reflected in the accompanying financial statements.

#### Financial Reporting Entity

In determining the financial reporting entity, the City complies with the provisions of GASB No. 14, "The Financial Reporting Entity," and includes all component units of which the City appointed a majority of the units' board, the City is either able to impose its will on the unit, or a financial benefit or burden relationship exists.

- **Blended Component Units**

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City has no blended component units.

- **Discretely Presented Component Units**

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

Transactions involving the Lynn Housing Authority, the Economic Development and Industrial Corporation of Lynn and the Lynn Water and Sewer Commission are excluded because they do not meet the criteria under GASB No. 14. The financial statements and related disclosure included with respect to the Lynn Contributory Retirement System is as of, and for the year ended, December 31, 2002, the System's most recently completed fiscal year.

#### Basis of Presentation

- **Government-Wide Financial Statements**

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds and component units that are fiduciary in nature. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Basis of Presentation (Continued)

- **Fund Financial Statements**

Fund financial statements of the reporting entity are recognized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- A. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and
- B. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described as below:

- **Governmental Funds**

General Fund - is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds - are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Projects Funds - are used to account for resources restricted for the acquisition or construction of specific capital projects or items, except those financed entirely by the general or proprietary funds.

Permanent Fund - is used to account for assets held by the City pursuant to trust agreements. The principle portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

- **Proprietary Funds**

Enterprise Funds - are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Lynn Marina Enterprise Fund, the Lynn Public Golf Course, the Lynn Ambulance Service and the Lynn School Lunch Fund.

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Basis of Presentation (Continued)

- **Fiduciary Funds (not included in government-wide statements)**

Agency Fund - The Agency Fund accounts for the assets held by the City in a purely custodial capacity. Since Agency Funds are custodial in nature, they do not involve the measurement of results of operations.

Contributory Retirement Fund - The retirement Fund is used to report resources that are required to be held in trust for the members and beneficiaries of the City of Lynn Contributory Retirement System.

- **Major and Nonmajor Funds**

The funds are further classified as major and nonmajor as follows:

Major Funds:	Brief Description
General Fund	See above for description
Lynn Community Development Fund	Administer various community development programs
Non-Major Funds:	
Special Revenue Funds	See above for description
Capital Projects Funds	See above for description

#### Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

##### Measurement Focus

On the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item B. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- A. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources at the end of the period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.



# **CITY OF LYNN, MASSACHUSETTS**

## **Notes to Financial Statements**

**June 30, 2003**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Measurement Focus and Basis of Accounting (Continued)**

##### **Measurement Focus (Continued)**

- B. Proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- C. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

##### **Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” “Measurable” means knowing or being able to reasonably estimate the amount of the transaction. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax, amounts due under grants, charges for services, and investment income. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within sixty days after year-end. In those instances where expenditures are the prime factor in determining eligibility for state and federal grants, revenues are recognized when the expenditure is incurred and all other grant requirements have been met. In the Capital Projects Funds, proceeds from the issuance of long-term debt are recognized as revenue upon receipt of the proceeds. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for sick pay which is not to be liquidated from expendable and current resources and general obligation bond principle and interest payments, which are recognized when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses recorded when the liability is incurred or economic asset used.

##### **Cash and Cash Equivalents and Investments**

For the purpose of the Statement of Net Assets, cash includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all highly liquid demand and savings accounts, certificates of deposit, and short-term investments held by financial institutions purchased with an original maturity of three months or less.

# **CITY OF LYNN, MASSACHUSETTS**

## **Notes to Financial Statements**

**June 30, 2003**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Cash and Cash Equivalents and Investments**

Investments are reported at fair value based on quoted market price. Managed funds related to the City's retirement system not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales price of the underlying securities. See Note 4 for a summary of the investments held by the City.

#### **Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts being owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "inter-fund receivables and payables." Long-term interfund loans (non-current portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

#### **Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include property and motor vehicle excise taxes and grants. Business-type activities report ambulance and Medicare reimbursements and membership dues as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property and motor vehicle excise taxes, and grants and other similar inter-governmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded when earned only if paid within sixty days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Ambulance and Medicare reimbursements and membership dues compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are established based upon historical trends and the periodic aging of accounts receivable.

#### **Inventories**

Inventories of materials and supplies are recorded as expenditures when purchased.

#### **Prepayments**

Prepayments are recorded as expenditures when made.

#### **Fixed Assets**

The accounting treatment over property, plant, and equipment ("fixed assets") depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

- **Government-wide Statements**

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

- **Government-wide Statements (Continued)**

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

Buildings	25 - 50 Years
Improvements	10 - 50 Years
Machinery and equipment	3 - 20 Years
Utility system	25 - 50 Years
Infrastructure	25 - 50 Years

- **Fund Financial Statements**

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

#### **Restricted Assets**

Restricted assets include cash and investments of the proprietary and special revenues funds that are legally restricted as to their use. The primary restricted assets are related to Community Development and various Special Revenue funds included as nonmajor funds.

#### **Long-term Debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as a liability in the government-wide statements. The long-term debt consists primarily of bonds and notes payable and accrued compensation absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

#### **Accrued Sick and Vacation Leave**

Employees are granted vacation and sick leave benefits pursuant to City policy and collective bargaining agreements as they provide services to the City. All vacation must be taken within the fiscal year earned, except with permission of the City Mayor or, in the case of School Employees, the School Superintendent. The liability for these compensated absences is recorded as long-term debt in the government-wide statements.

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Deferred Compensation Plan

The City has a City-sponsored deferred compensation plan administered by an independent plan administrator, which was established in accordance with Section 457 of the Internal Revenue Code (the "Code") to conform with changes made to the Code. The City adopted the provisions of GASB No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which requires that the deferred compensation plan sponsored by the City for which they do not have fiduciary responsibility not be reported in the City's general purpose financial statements.

#### Equity Classifications

- **Government-wide Statements:**

Equity is classified as net assets and displayed in three components:

- A. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- B. Restricted net assets consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- C. Unrestricted net assets consist of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

- **Fund Statements**

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

#### Encumbrances and Continuing Appropriations

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of funds are recorded in order to reserve that portion of an applicable appropriation, is employed in governmental funds. Open encumbrances at year-end are reported as reservations of fund balances. Encumbrances do not constitute expenditures or liabilities, except for budgetary purposes.

#### Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### **Expenditures/Expenses**

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - by character:	Current (further classified by function)
	Debt service
	Capital outlay

Proprietary Funds - by operating and  
non-operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

#### **Transfers**

Transfers of resources from a fund receiving revenue to the fund through which the resources are to be expended are recorded as operating transfers and are reported as other financing sources/(uses.)

#### **On-Behalf Payments**

The financial statements of the City are prepared in accordance with Government Accounting Standards Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance. This statement requires the City to recognize, as income, certain payments made on behalf of the City by the Commonwealth. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teacher's Retirement Board (the "State Plan") on behalf of the City's teaching employees. The City is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

For the fiscal year ended June 30, 2003, the Commonwealth paid \$9,745,179 on behalf of the City's teaching employees. Intergovernmental revenues and employee pension expenditures of the contributory retirement system have been increased accordingly by the amount paid by the Commonwealth.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 2 - Budgets and Appropriations

Annual budgets are adopted for the General Fund. Appropriations for the General Fund of the City are presented by the City Mayor and approved by the City Council annually at a City Council Meeting held in May. Additional appropriations may also be voted at City Council meetings throughout the fiscal year subject to available resources. Typically the City Mayor would submit requests for additional appropriations to the City Council. The City does not establish budgets nor does it vote on annual appropriations for the Special Revenue and Capital Projects Funds.

The appropriated budget is prepared by fund, function and department. City department heads may make transfers of appropriations within a department. The City Council, however, must approve any transfer of unencumbered appropriation balances between departments or between certain categories in the departmental budget.

All annual appropriations lapse at fiscal year end. Appropriations for certain projects and specific items not fully expended at the fiscal year end, however, are carried forward as continued appropriations to the new fiscal year and are reported as a component of fund balance. Expenditures from continued appropriations are recorded as current year expenditures of the General Fund in the combined statement of revenues, expenditures and changes in fund balances.

The school budget, included within the General Fund, is limited to the amount appropriated by the City Council, but the School Committee retains full power to allocate the funds appropriated.

The City Council does not vote general operating appropriations for the Marina Enterprise Fund but rather authorizes this self-supporting enterprise to incur expenses from receipts.

It is unlawful to authorize expenditures in excess of the amounts that have been appropriated by the City Council, with the exception of expenditures for snow and ice removal per Massachusetts General Laws, Chapter 44, Section 31D.

The City prepares its annual operating budget on a basis (budgetary basis), which differs from generally accepted accounting principles (GAAP basis). In order to provide a comparison of actual results with the budget, the actual and budget amounts are presented in accordance with the City's method (budgetary basis) in the combined statement of revenues, expenditures and other financing sources (uses) - budget and actual (budgetary basis), General Fund.

The major differences between the GAAP and the budgetary basis are as follows:

1. Encumbrances - Reported as a reservation of fund balance (GAAP basis) as opposed to being recorded as an expenditure (budgetary basis).
2. Revenue Recognition - Budget revenues are recorded when cash is received, except for real estate and personal property taxes, and certain other revenues, which are recorded as revenues when levied (budgetary basis), as opposed to when susceptible to accrual (GAAP basis).
3. Appropriation of Unreserved Fund Balance - Classified as another financing source for the budgetary basis; it is not reflected in the GAAP basis amounts.

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 2 - Budgets and Appropriations (Continued)

#### Budgetary - GAAP Reporting Reconciliation

A reconciliation of budgetary-basis to GAAP-basis for the general fund results is as follows:

Deficiency of revenues and other financing sources over expenditures and other financing uses - budgetary basis	\$ (5,183,770)
Effect of using the modified accrual method for recognizing revenues	(1,007,546)
Timing differences in recognizing expenditures	<u>561,225</u>
Excess of revenues and other financing sources over expenditures and other financing uses - GAAP basis	<u><u>\$ (5,630,091)</u></u>

### Note 3 - Property Taxes

Property taxes are based upon values assessed as of January 1 and are levied each July for the following fiscal year ending June 30. Taxes for each year are due in quarterly installments and are normally payable August 1, November 1, February 1 and May 1. Property taxes are recorded as receivables and deferred revenue at the time quarterly installments are billed. Interest accrues on delinquent taxes at the rate of 14% per annum and is recognized as revenue when received.

Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and bankruptcy and insolvency laws. In addition, real property is subject to a lien for certain unpaid municipal charges or fees. If the property has been transferred, an unenforced lien expires on the third October 1 after the fiscal year levied. If the property has not been transferred by the third October 1, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien when it cannot be enforced because of a legal impediment.

The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by the sale or taking of the property by the City.

The City is subject to certain limitations on the amount of property taxes it may levy. Levies are generally limited to 2 and 1/2% of the City's total assessed valuation of real property. In addition, the assessed valuation of real property is limited to an annual increase of 2 and 1/2%.

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 4 - Cash and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits (including demand deposits, money market deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or its agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by the U.S. government or its agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust.

#### Deposits

The following summary presents the amount of City deposits as of June 30, 2003 (except for the retirement system which is as of December 31, 2002) as recorded by various banks, with the corresponding total per the City's books as reflected in the accompanying balance sheet, categorized below as Category 1 (fully insured deposits, or deposits collateralized with securities held by the City or its agent in the City's name), Category 2 (collateralized deposits with securities held by the pledging financial institution's trust department in the City's name) or Category 3 (deposits neither fully insured nor collateralized as per criteria in Category 1 or 2 above).

	Category 1	Category 2	Category 3	Total
Government funds	\$ 4,471,868	\$ -	\$ 32,599,368	\$ 37,071,236
Business-type funds	100,000	-	247,931	347,931
Retirement funds	<u>26,610</u>	<u>-</u>	<u>2,571,401</u>	<u>2,598,011</u>
Total bank recorded balance	\$ <u>4,598,478</u>	\$ <u>-</u>	\$ <u>35,418,700</u>	40,017,178
Reconciling items (deposits in transit outstanding checks, etc.), net				<u>(11,176,457)</u>
Total cash and cash equivalents per City				\$ <u>28,840,721</u>

The composition of the City's bank recorded deposits fluctuates depending primarily on the timing of real estate tax receipts, proceeds from borrowings, collections of state and federal aid, and capital outlays throughout the year.



# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 4 - Cash and Investments (Continued)

#### Investments

The City categorizes investments according to the level of risk assumed by the City. Category 1 includes investments that are insured, registered or held by the City or the City's agent in the City's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured, unregistered investments held by the counterparty, its trust department or its agent, but not in the City's name. The summary of total retirement system investments as of December 31, 2002, and City investments as of June 30, 2003 per the above criteria is below.

Type of Investment	Category 1	Category 2	Category 3
Stocks	\$ -	\$ -	\$ 36,684
Corporate and Foreign Bonds	-	-	2,844,130
U.S. Treasury and Municipal Obligations	-	-	3,123,258
Total bank recorded balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,004,072</u>

Retirement System	Category 1	Category 2	Category 3
Stocks	\$ -	\$ -	\$ 65,106,709
Bonds and U.S. Treasury	-	-	55,723,576
Interest in Real Estate Limited Partnerships	-	-	6,964,763
Interest in Venture Capital Limited Partnership	-	-	1,513,362
Accrued Interest	-	-	407,692
Total bank recorded balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,716,102</u>

In addition to the interest in the Venture Capital Limited Partnership at December 31, 2002, the City has a commitment to provide up to an additional \$1,550,000 in capital contributions to the partnership, as needed, to enable the partnership to make additional investments.

### Note 5 - Accounts Receivable

Accounts receivable of the business-type activities consists of:

Accounts receivable	\$ 1,544,062
Allowance for doubtful accounts	<u>(790,000)</u>
Net accounts receivable	<u>\$ 754,062</u>

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

	Balance at July 1, 2002	Fiscal 2003 Changes	Balance at June 30, 2003
Governmental activities:			
Land	\$ 6,427,595	\$ -	\$ 6,427,595
Land improvements	1,469,115	54,971	1,524,086
Buildings	140,959,409	(2,036,891)	138,922,518
Machinery and equipment	6,524,926	(78,749)	6,446,177
Infrastructure	7,570,809	129,577	7,700,386
Licensed vehicles	<u>8,476,029</u>	<u>884,586</u>	<u>9,360,615</u>
Totals at historical cost	<u>\$ 171,427,883</u>	<u>\$ (1,046,506)</u>	<u>\$ 170,381,377</u>
Less accumulated depreciation			
Land improvements	\$ 1,016,590	\$ 37,507	\$ 1,054,097
Buildings	52,963,417	2,117,306	55,080,723
Machinery and equipment	4,936,429	515,047	5,451,476
Infrastructure	7,460,809	5,990	7,466,799
Licensed vehicles	<u>5,788,757</u>	<u>730,766</u>	<u>6,519,523</u>
Total accumulated depreciation	<u>\$ 72,166,002</u>	<u>\$ 3,406,616</u>	<u>\$ 75,572,618</u>
Business-type activities:			
Land	\$ 488,834	\$ -	\$ 488,834
Land improvements	37,908	-	37,908
Licensed vehicles, equipment and fixtures	1,854,229	(15,594)	1,838,635
Marina improvements	<u>1,392,351</u>	<u>-</u>	<u>1,392,351</u>
Totals at historical cost	<u>\$ 3,773,322</u>	<u>\$ (15,594)</u>	<u>\$ 3,757,728</u>
Less accumulated depreciation			
Land improvements	\$ 36,960	\$ 948	\$ 37,908
Licensed vehicles, equipment and fixtures	1,296,220	(267,011)	1,029,209
Marina improvements	<u>464,399</u>	<u>27,528</u>	<u>491,927</u>
Total accumulated depreciation	<u>\$ 1,797,579</u>	<u>\$ (238,535)</u>	<u>\$ 1,559,044</u>

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 6 - Capital Assets (Continued)

Depreciation expense was charged to governmental activities as follows:

General government:	
Mayor	\$ 3,984
Data Processing	17,287
General government	841,381
Election office	<u>17,020</u>
Total general government	<u>879,672</u>
Public safety and judiciary:	
Police	211,129
Fire	<u>400,856</u>
Total public safety and judiciary	<u>611,985</u>
Education	<u>1,636,573</u>
Public service	<u>273,586</u>
Cultural and recreation	<u>4,800</u>
Total depreciation expense	\$ <u><u>3,406,616</u></u>

### Note 7 - Long-Term Debt

#### General Obligation Debt

State law permits a City, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, a City may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

#### Notes Payable

The City is authorized, through its Treasurer, to borrow on a temporary basis to fund operating costs incurred prior to receipt of tax revenues by issuing tax anticipation notes (TANs). It may also borrow to fund capital projects in anticipation of the issuance of bonds (BANs), or receipt of federal (FANs) and state (SANs) grants.

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 7 - Long-Term Debt (Continued)

#### Governmental Activities:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Retired FY 2003</u>
School project	5.00-7.85	01/15/04	\$ 1,060,000	\$ 1,060,000
School project refunding	2.50-5.25	01/15/11	8,110,000	135,000
School land acquisition	5.00 - 5.75	11/01/02	1,160,000	145,000
Section 108	3.73-7.90	08/01/12	550,000	35,000
Solid Water Disposal	4.75-5.10	06/01/12	4,340,000	485,000
High School	4.40-5.25	02/15/17	37,180,000	1,735,000
Voting machine	4.5	12/31/02	69,110	35,000
High School	4.00-5.375	08/15/17	24,855,000	645,000
High School	4.00-5.25	06/01/18	21,455,000	1,010,000
Police Station	3.85	01/24/03	2,500,000	-
Capital Projects	5.375-5.40	02/01/10	1,360,000	300,000
Subtotal			102,639,110	5,585,000
Total Accrued Compensated Absences			2,764,147	-
<b>Total Governmental Activities Debt</b>			<b>\$ 105,403,257</b>	<b>\$ 5,585,000</b>

#### Business-type Activities:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Retired FY 2003</u>
Marina	7.00	2/1/2014	\$ 1,355,860	\$ 20,580
<b>Total Governmental Activities Debt</b>			<b>\$ 1,355,860</b>	<b>\$ 20,580</b>

At June 30, 2003, the City did not maintain sufficient funds in the "Reserve Fund" and the "Depreciation Reserve Fund," which has requirements of \$135,720 and \$130,000, respectively.

There have been a number of defaults with respect to certain covenants contained in the bond agreement through which the marina redevelopment project was financed. These defaults are primarily of an administrative nature and relate to the period the facility was operated by the previous lessee. Lynn Community Development has commenced actions that will ultimately affect compliance with the bond agreement, and have communicated these ongoing efforts to the funding agency. While the City does not believe it will be declared to be in default, no formal waivers have been obtained. Therefore, the financial impact to the City, if any, of these defaults is unable to be determined.

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 7 - Long-Term Debt (Continued)

#### Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2003:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003	Amounts Due within One Year
<b>Governmental Activities:</b>					
Bonds Payable	\$ 105,724,110	\$ -	\$ 5,585,000	\$ 100,139,110	\$ 6,315,000
Notes Payable	2,500,000	10,000,000	10,000,000	2,500,000	2,500,000
Accrued Compensated Absences	<u>2,764,147</u>	<u>-</u>	<u>-</u>	<u>2,764,147</u>	<u>-</u>
Total Governmental Activities Debt	<u>\$ 111,661,672</u>	<u>\$ 10,000,000</u>	<u>\$ 15,585,000</u>	<u>\$ 105,403,257</u>	<u>\$ 8,815,000</u>
<b>Business-Type Activities:</b>					
Bonds Payable	\$ <u>1,376,440</u>	\$ <u>-</u>	\$ <u>20,580</u>	\$ <u>1,355,860</u>	\$ <u>44,130</u>
Total Business-type Activities Debt	<u>\$ 1,376,440</u>	<u>\$ -</u>	<u>\$ 20,580</u>	<u>\$ 1,355,860</u>	<u>\$ 44,130</u>

During the year ended June 30, 2003, the City issued two short-term notes, each in the amount of \$5 million. The purpose of these notes were to fund the City's payroll, to fund the City's operations in anticipation of future property tax revenues and to support building renovations of the Lynn police station, respectively. At June 30, 2003, only the \$2.5 million bond anticipation note remained outstanding.

#### Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2003, are as follows:

Years Ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 8,815,000	\$ 4,749,429	\$ 44,130	\$ 92,697
2005	6,524,110	4,422,552	47,320	89,552
2006	6,560,000	4,131,611	50,750	86,180
2007	6,765,000	3,839,061	54,410	82,563
2008	6,980,000	3,562,523	58,350	78,686
Thereafter	<u>66,995,000</u>	<u>16,772,172</u>	<u>1,100,900</u>	<u>280,371</u>
Total	<u>\$ 102,639,110</u>	<u>\$ 37,477,348</u>	<u>\$ 1,355,860</u>	<u>\$ 710,049</u>

# **CITY OF LYNN, MASSACHUSETTS**

## **Notes to Financial Statements**

**June 30, 2003**

### **Note 8 - Fund Balance Deficits**

As of June 30, 2003, various funds included in the financial statements as Nonmajor Governmental Funds had deficits. These deficits will be funded via the receipt of federal and state grants and reimbursements. The deficit in the General Fund will be funded through use of overlay, reduction in one time expenses the City experienced in fiscal 2003 and alternative sources for revenue raising.

### **Note 9 - Retirement Plans**

#### **System Descriptions**

The following description of the City of Lynn Contributory Retirement System (the "System"), a Blended component unit of the City, is provided for general information purposes only. Users should refer to the General Laws of the Commonwealth (Chapter 32) and the rules, regulations and the procedures adopted by the Public Employee Retirement Administration Commission (PERAC) and by the City of Lynn Retirement Board for more complete information.

The System issues publicly available financial report in accordance with guidelines established by the PERAC. That report may be obtained from the System located at City Hall, Room 106, Lynn, Massachusetts 01901.

The System is a contributory single-employer defined benefit pension plan covering City employees deemed eligible by the System's Retirement Board, with the exception of School Department employees who serve in a teaching capacity. The pensions of such teachers are administered by the Massachusetts Teachers' Retirement Board (see Note 10). Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

Massachusetts's contributory retirement system benefits are uniform from system to system, including the Massachusetts Teachers Retirement System. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year average annual rate of regular compensation, as defined. Benefit payments are based upon a participant's age, length of creditable service, level of compensation, and group classification.

Non-teaching employees of the City who are employed on a basis, which anticipates work at an annual rate to exceed 1,040 hours, are eligible to participate in the System. Full-time employees are eligible immediately, and part-time employees are eligible six months after the date of employment.

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 9 - Retirement Plans (Continued)

#### System Descriptions (Continued)

Participants become vested after ten years of creditable service. Participants' contributions are fully vested at all times. A superannuation retirement allowance may be received upon completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55). As of December 31, 2002, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them.	1,252
Inactive employees	205
Active employees	<u>1,812</u>
	<u><u>3,269</u></u>

A retirement allowance consists of two parts, an annuity and a pension. Participants' accumulated total contributions and a portion of the interest their contributions generate constitute the annuity. The differential between the total retirement benefit and the annuity benefit is the pension benefit. The average retirement benefit is approximately 80% - 85% pension and 15% - 20% annuity.

Contribution requirements of the City and the participants are established by Massachusetts General Laws and the System and may be amended. Active participants contribute 5%, 7%, 8%, or 9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's participation or membership commences. Active participants who were hired on or after January 1, 1979 contribute an additional 2% of salary in excess of \$30,000. All participant contributions are deposited in the Annuity Savings Fund and earn interest at a rate determined by PERAC's actuary (2.5% during calendar 1999) according to statute. When a participant's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. The City is required to contribute at an actuarially determined rate. The current rate is 22.76% of annual covered payroll. The pension portion of any retirement benefit is paid from the Pension Fund of the System.

From time to time, the Massachusetts legislature may grant cost-of-living increases to benefits being paid to retirees. These increases are expressed as a percentage of the retiree's allowance, subject to a maximum dollar increase. Since 1982, cost-of-living increases granted to members of local retirement systems have been the financial responsibility of the Commonwealth. As of July 1, 1999, each City Retirement Board must vote to award cost-of-living increases. The percentage increase is mandated by the Massachusetts Legislature and is the financial responsibility of the electing System.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as determined by PERAC's Actuary. Prior to 1977, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees now working. Large unfunded liabilities resulted from this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations. In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. This has significantly reduced the rate of growth of the retirement's systems' unfunded liabilities, and in some systems has actually reduced such liability.

# **CITY OF LYNN, MASSACHUSETTS**

## **Notes to Financial Statements**

**June 30, 2003**

### **Note 9 - Retirement Plans (Continued)**

#### **System Descriptions (Continued)**

Administrative expenses are funded through excess investment income.

Participants who become permanently and totally disabled from further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including whether the disability is work-related, the participant's age, years of creditable service, level of compensation, veteran's status, and group classification.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated contributions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive 0%, 50%, or 100% of the regular interest that has accrued upon those contributions. Survivor benefits are extended to eligible beneficiaries of participants whose deaths occur prior to or following retirement.

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination will be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of the Commonwealth, if such member has paid the stipulated contributions specified in sections or provisions of such laws.

#### **Summary of Significant Accounting Policies**

**Basis of Accounting** - The System follows the policies mandated by the Commonwealth of Massachusetts. The financial statements of the System are on the accrual basis of accounting on a calendar year basis. City and participant contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of Massachusetts General Law and the plan.

**Method Used to Value Investments** - Plan investments are reported at fair value at the end of the year except for fixed income securities that are at amortized cost basis. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future plan principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based upon independent appraisals. Investments that do not have an established market are reported at estimated fair values.

#### **Funding Policy**

The City has adopted, and PERAC has approved, a schedule that provides for the funding of the normal cost plus funding of the unfunded actuarial liability over a twenty-nine year period, ending June 30, 2024. The funding amount for the fiscal year ended June 30, 2003 was \$12,758,698 equal to the required contribution.

The most recent actuarial valuation of the System was prepared as of January 1, 2002. The City's total covered payroll for the year ended December 31, 2002 was approximately \$66,007,910.

Employer contributions are funded on a pay-as-you-go basis as directed by PERAC and the Teacher's Retirement Board.



# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2003

### Note 9 - Retirement Plans (Continued)

#### Annual Pension Cost

The annual required contribution for the current year was determined as part of the January 1, 2002 actuarial valuation using the entry age actuarial cost method. Significant actuarial assumptions used include (1) a rate of return on investment of present and future assets of 8.25% per year compounded annually, (2) projected salary increases of 4.75%, 5.00% and 5.25% per year for various employee groups compounded annually, and (3) no postretirement benefit increases. The unfunded actuarial accrued liability is being amortized using a 4.5% increasing basis method on an open basis.

The remaining amortization period at January 1, 2002 was 26 years. The City's contribution to the System for the years ending June 30, 2001, 2002 and 2003 were \$11,418,614, \$12,076,173, and \$12,808,698, respectively, equal to the required contributions for each year.

A schedule of the funding progress for 2000 and the two previous valuations are as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) * Entry Age	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) UAAL as of % of Covered Payroll (3)/(5)
12/31/2002	\$ 166,986,318	\$ 317,252,740	\$ 150,266,422	52.6%	\$ 66,007,910	227.6%
12/31/1999	168,279,923	278,031,058	109,751,135	60.5%	58,953,757	186.2%
12/31/1998	109,785,999	200,056,186	90,270,187	54.9%	47,985,127	188.1%

\*Excludes State reimbursed COLA

#### Noncontributory Retirement Plan

The City also has a noncontributory pension plan that covers certain employees hired prior to the adoption of the System. Total payments for the plan amounted to \$418,133 during the year ended June 30, 2003.

### Note 10 - Massachusetts Teachers' Retirement Plan

The majority of the teaching employees of the School Department participate in a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan"). The City does not contribute to this plan.

Teaching employees of the School Department who meet certain requirements and are employed on a basis, which anticipates work at an annual rate to exceed 1,040 hours, are required to participate in the State Plan.

For participants who became members of the State Plan prior to January 1, 1978, benefits become vested after twenty or more years of creditable service or upon reaching the age of 55. Benefits relating to participants who became members of the State Plan subsequent to December 31, 1997 become vested after twenty or more years of creditable service or after ten or more years of creditable service and having reached the age of 55.

Teaching employees contribute 5% of regular compensation if they became members of the State Plan prior to January 1, 1975, 7% if they became members from January 1, 1975 to December 31, 1983, 8% if they became members on or after January 1, 1984, or 9% if they became members on or after January 1, 1996.

# **CITY OF LYNN, MASSACHUSETTS**

## **Notes to Financial Statements**

**June 30, 2003**

### **Note 10 - Massachusetts Teachers' Retirement Plan (Continued)**

In addition, if they became members on or after January 1, 1979, employees are required to contribute an additional 2% of regular compensation in excess of \$30,000.

The Commonwealth is obligated to fund the State Plan. State law requires that public employee retirement systems in the Commonwealth be funded on a pay-as-you-go basis, that is, an amount necessary to pay pensions actually falling due must be funded each year. The on-behalf payments funded by the Commonwealth to the State Plan are not analyzed by community; funding is made in total for participating employees throughout the Commonwealth.

### **Note 11 - Other Post-Employment Benefits**

In addition to the pension benefits described in Notes 9 and 10, the City provides post-employment health care benefits to all employees who are eligible for retirement with at least ten years of service and who were receiving health benefits from the City at retirement. The City provides health and life insurance premium assistance at the level, which the employee received when employed. This currently averages 75%, unless the individual is covered by Medicare, in which case a Medicare Supplement is provided. The City funds the benefits on a pay-as-you-go basis. The City's expenditure for these benefits was approximately \$7,400,000 for the year ended June 30, 2003.

There are approximately 1,760 participants currently eligible.

### **Note 12 - Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased commercial insurance for these risks, except for those risks identified in the following paragraphs that the City accounts for in its General Fund.

#### **Group Health**

The City self-insures its health insurance costs of its current and retired employees and their covered dependents to minimize the cost of annual medical insurance. Contributions to a plan, which administers the self-insurance, are made monthly in the following proportions: City 75%, employees 25%. Medical claims, which exceed \$220,000 for the first claim and \$150,000 for additional claims per individual per plan year, are covered through a private insurance carrier.

The total charge allocated to the General Fund is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

Liabilities of the Medical Claims Trust Fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported ("IBNR"). Claim liabilities are calculated based on recent claim settlement trends, including frequency and amount of payouts. Self-insurance is, in effect, up to a specific stop-loss amount of \$150,000 per insured employee for fiscal 2003. Coverage from a private insurance company is maintained for losses in excess of the specific stop-loss amount. All claim an independent claims administrator performs handling procedures.

# CITY OF LYNN, MASSACHUSETTS

## General Fund

### Statement of Revenues, Transfers, Expenditures and Changes in Fund Balances (Budgetary Basis) - Budget and Actual

Year Ended June 30, 2003

	<u>Budgeted Amounts</u>			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Amounts</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:				
Property taxes	\$ 68,264,803	\$ 68,264,803	\$ 68,476,340	\$ 211,537
Intergovernmental	135,564,826	133,108,604	133,099,823	(8,781)
Excise taxes	5,788,249	5,788,249	6,129,643	341,394
Charges for services	8,397,272	8,397,272	4,316,276	(4,080,996)
Licenses, permits and fines	1,807,505	1,807,505	2,035,307	227,802
Departmental	1,418,378	1,418,378	1,890,970	472,592
Investment income	<u>779,570</u>	<u>779,570</u>	<u>807,080</u>	<u>27,510</u>
Total revenues	<u>222,020,603</u>	<u>219,564,381</u>	<u>216,755,439</u>	<u>(2,808,942)</u>
Expenditures:				
General government	9,516,696	9,252,759	9,226,730	26,029
Public safety	35,203,900	34,770,224	34,182,554	587,670
Education	105,773,369	108,198,008	107,187,106	1,010,902
Public service	11,969,628	11,777,200	11,544,842	232,358
Health and welfare	8,010,485	7,975,609	6,042,470	1,933,139
Culture and recreation	1,422,694	1,331,913	1,272,902	59,011
Debt service	11,253,999	11,253,999	11,159,855	94,144
Employee pensions	527,828	527,828	418,133	109,695
Insurance	23,910,061	25,410,061	24,367,937	1,042,124
Intergovernmental	2,386,945	2,386,945	3,448,806	(1,061,861)
Prior year deficits	<u>836,454</u>	<u>836,454</u>	<u>836,454</u>	<u>-</u>
Total expenditures	<u>210,812,059</u>	<u>213,721,000</u>	<u>209,687,789</u>	<u>4,033,211</u>
Excess/(deficiency) of revenues over expenditures	11,208,544	5,843,381	7,067,650	1,224,269
Other financing sources/(uses):				
Transfers to other funds	<u>(13,804,117)</u>	<u>(13,804,117)</u>	<u>(12,251,420)</u>	<u>1,552,697</u>
Excess/(deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (2,595,573)</u>	<u>\$ (7,960,736)</u>	<u>\$ (5,183,770)</u>	<u>\$ 2,776,966</u>